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Report Highlights:

MY 2005/06 coffee production and exports are forecast to increase by five percent and 29 percent, respectively. Indian coffee prices increased sharply in recent months, which is likely to retard consumption growth. Indian coffee exports to the United States registered a significant increase in CY 2004.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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SECTION I – SITUATION AND OUTLOOK

PRODUCTION

MY 2005/06 (Oct-Sep) coffee production is forecast at 290,000 tons (4.8 million 60-kg bags), five percent higher than the revised MY 2004/05 estimate of 275,500 tons (4.6 million bags). The increase stems from excellent pre-blossom showers in growing areas, the forecast of a normal monsoon by the Indian Meteorological Department, and likely higher input use (fertilizers, pesticides, etc.) and better management practices by growers. However, the white stem borer, a destructive pest, continues to threaten particularly the Arabica plantations. This pest has reportedly affected 2,000 hectares of coffee, is still spreading, and was one of the main reasons for the recent downward revision of the 2004/05 coffee production.

The 2005/06 production is likely to consist of 105,000 tons of Arabica and 185,000 tons of Robusta, compared with 103,400 tons of Arabica and 172,100 tons of Robusta in 2004/05. The recent improvement in coffee prices and a significant fall in vanilla and pepper prices should discourage inter-planting of coffee with these crops, although most Indian coffee farmers continue to use crop diversification as a risk management and coffee quality-improvement strategy. Also, the Land Ceiling Acts in various states do not permit reduction in acreage under coffee.

The instant coffee segment is almost entirely branded and packaged, and is dominated by multinationals like Nestle and Lever. The absence of smaller players is a result of high investments and marketing costs. Due to a growing domestic and export demand, production of instant coffee is increasing and capacity is expanding, with one Indian company, Narasu's, recently getting into instant coffee production.

Some international coffee chains, including Starbucks, have started sourcing coffee from Indian companies. However, positive quality differentials have been slower to emerge with small growers, who own almost 98 percent of the total 178,300 coffee holdings and 60 percent of the production.

CONSUMPTION

Post forecasts coffee consumption almost unchanged at around 70,000 tons in MY 2005/06. Although retail coffee prices have gone up significantly in recent months, consumption is unlikely to decline as the demand is inelastic. Traditionally, coffee consumption is confined to southern Indian states. Average coffee consumption in India is low, at 10 cups per person annually. The recent spread of the coffee-shop culture throughout major cities is supporting higher consumption, although the volume of coffee use by these chains is relatively small. Currently, there are several large companies offering a wide array of coffee preparations, which are increasingly popular among the growing number of high-income consumers, especially affluent young people. Coffee's major competitor has historically been tea; soft drinks, fruit drinks, milk-based drinks, and bottled drinking waters are posing new challenges. Coffee powder is traditionally blended with chicory to make the coffee stronger, with the chicory content in some brands as high as the maximum permitted limit of 49 percent under the Prevention of Food Adulteration Act (PFA). However, the PFA does not permit the use of flavors in packaged coffee, as any additive to coffee (except chicory) is treated as an adulterant. This has restricted innovation in coffee-based products; change in such clauses, which is unlikely, could lead to growth through new products in the domestic market.

Reflecting high international prices, Indian coffee prices also registered significant gains in recent months. The recent Bangalore wholesale price of Arabica Parchment "A" was at a six-year high of rs. 115 per kilogram (\$1.20 per pound), and the Robusta Cherry "AB" was at rs. 46 per kilogram (48 US cents per pound), compared with the year-ago prices of rs. 66 and rs. 39 per kilogram for Arabica and Robusta, respectively. "Estate branded" coffee beans are receiving high premiums. The retail price of pure grind coffee (Arabica plantation) in major southern cities is around rs. 150 per kilogram (\$1.56 per pound), 50 percent higher than the year ago price. The government's decision to bring coffee powder into the 12.5 percent Value Added Tax (VAT) category, against the earlier level of eight percent, will likely also contribute to higher retail prices.

TRADE

Coffee exports in MY 2005/06 are forecast higher at 230,000 tons, and the MY 2004/05 estimate has been revised to 170,000 tons, because of likely larger production and increased availability. The downward revision in MY 2004/05 coffee exports is based on the export trend from October 2004 through April 2005 and the current shortage of coffee for export. Exporters believe that farmers and traders, in the expectation of even higher prices, are holding onto their stocks, which will start coming into the market in the last quarter of the marketing year. On a calendar year basis, exports in 2004 were 219,000 tons, marginally below the 2003 level. Exports of instant coffee and specialty coffees are showing an upward trend, and now account for about 24 percent of total coffee exports in quantity terms and 32 percent in value terms.

India, with a global coffee production share of 4.5 percent, accounts for about 4.5 percent of world trade. Top markets for Indian coffee are Italy, Russia, Germany, Belgium, Spain, Slovenia, France, Algeria, Japan, and Greece. Russia is the largest importer of Indian instant coffee, importing around 30,000 tons annually. Exports to the United States in CY 2004 were 6,127 tons, a significant increase over CY 2003 exports of 2,530 tons. Indian participation in the international coffee exhibitions and events in the United States has translated into greater awareness about Indian coffee and its attributes. However, cheaper coffee from South America, and higher freight costs from India to the United States, are reported to be stumbling blocks for larger Indian exports to the States.

India's 2004 coffee imports were approximately 3,000 tons, and were mostly confined to cheap Indonesian coffee imported by export-oriented units for blending and re-exports. A 100 percent import duty on coffee makes large scale imports infeasible.

STOCKS

With the Coffee Board losing its monopoly on coffee marketing in the mid-nineties, no reliable estimates of stocks are available. MY 2004/05 ending stocks are estimated at 803,000 bags compared to 236,000 bags in MY 2003/04, due to lower exports and static consumption. MY 2005/06 ending stocks are forecast at 613,000 bags.

MARKETING

The increasing presence of modern espresso coffee bars in major cities provides an opportunity for US companies to supply products such as syrups, specialty coffees, etc. As India is emerging as a producer of specialty coffee, US coffee companies interested in setting up operations in India and nearby regions may find it cheaper to source coffee from India. Starbucks has reportedly entered into agreements with large Indian coffee companies to source coffee beans from India for its overseas operations.

POLICY

Effective April 1, 2005, the Indian government discontinued the rs. 0.50 per kilogram (\$11.40 per metric ton) transportation subsidy to coffee exporters. However, this was offset by the removal of the rs. 500 (\$11.40) per ton export cess (tax) on coffee announced in this year's Annual Trade Policy. Although the government created a Price Stabilization Fund of rs. 5 billion (\$114 million), to provide price stability to small growers of coffee, tea, and rubber, the response to this scheme was lukewarm due to meager protection the scheme provides. The Coffee Board is now working on ways to insulate Indian coffee growers, particularly the small growers, from price and climatic risks. There are speculations that the government will soon come out with a relief package for the coffee sector, which could include the rescheduling of loans and the lowering or waiving of interest rates.

The Indian Coffee Industry (both government and private) is generally supportive of the United States rejoining the International Coffee Organization (ICO), as they believe that it would provide more stability to the global coffee market. The Coffee Board chairperson reportedly said that the US decision to re-join the ICO would give a new dimension to this organization to resolve the ongoing global coffee price crisis.

SECTION II – STATISTICAL TABLES

Table 1: Commodity, Coffee, Green, PSD

PSD Table							
Country	India						
Commodity	Coffee, Green				(1000 HA) (MILLION TREES) (1000 60 KG BAGS)		
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		10/2003		10/2004		10/2005	MM/YYYY
Area Planted	355	355	355	355	0	355	(1000 HA)
Area Harvested	320	328	320	328	0	329	(1000 HA)
Bearing Trees	550	550	550	550	0	550	(MILLION TREES)
Non-Bearing Trees	70	70	70	70	0	70	(MILLION TREES)
TOTAL Tree Population	620	620	620	620	0	620	(MILLION TREES)
Beginning Stocks	748	748	294	236	183	803	(1000 60 KG BAGS)
Arabica Production	1700	1700	1920	1720	0	1750	(1000 60 KG BAGS)
Robusta Production	2800	2800	2920	2870	0	3080	(1000 60 KG BAGS)
Other Production	0	0	0	0	0	0	(1000 60 KG BAGS)
TOTAL Production	4500	4500	4840	4590	0	4830	(1000 60 KG BAGS)
Bean Imports	0	0	0	0	0	0	(1000 60 KG BAGS)
Roast & Ground Imports	0	0	0	0	0	0	(1000 60 KG BAGS)
Soluble Imports	0	0	0	0	0	0	(1000 60 KG BAGS)
TOTAL Imports	0	0	0	0	0	0	(1000 60 KG BAGS)
TOTAL SUPPLY	5248	5248	5134	4826	183	5633	(1000 60 KG BAGS)
Bean Exports	3013	3055	3000	2080	0	3050	(1000 60 KG BAGS)
Roast & Ground Exports	1	3	1	3	0	5	(1000 60 KG BAGS)
Soluble Exports	750	764	750	750	0	770	(1000 60 KG BAGS)
TOTAL Exports	3764	3822	3751	2833	0	3825	(1000 60 KG BAGS)
Rst,Ground Dom. Consum	1000	1000	1005	1000	0	1000	(1000 60 KG BAGS)
Soluble Dom. Consum.	190	190	195	190	0	195	(1000 60 KG BAGS)
TOTAL Dom. Consumption	1190	1190	1200	1190	0	1195	(1000 60 KG BAGS)
Ending Stocks	294	236	183	803	0	613	(1000 60 KG BAGS)
TOTAL DISTRIBUTION	5248	5248	5134	4826	0	5633	(1000 60 KG BAGS)

Table 2: Commodity, Coffee, Green, Export Trade Matrix

Export Trade Matrix			
Country	India		
Commodity	Coffee, Green		
Time Period	Jan-Dec	Units:	Metric ton
Exports for:	2004		2005
U.S.	6127	U.S.	
Others		Others	
Italy	50531		
Russian Federation	31008		
Germany	22045		
Belgium	14400		
Spain	12184		
Slovenia	10113		
Greece	5754		
Japan	5251		
France	3658		
Jordan	3582		
Total for Others	158526		0
Others not Listed	54064		
Grand Total	218717		0

Table 3: Commodity, Coffee, Green, Prices Table

Prices Table			
Country	India		
Commodity	Coffee, Green		
Prices in	Rupees	per uom	50 kg
Year	2004	2005	% Change
Jan	2989	4885	63%
Feb	3176	5240	65%
Mar	3228		-100%
Apr	3259		-100%
May	3362		-100%
Jun	3611		-100%
Jul	3543		-100%
Aug	3619		-100%
Sep	3734		-100%
Oct	3976		-100%
Nov	4133		-100%
Dec	4666		-100%
Exchange Rate	43.5	Local Currency/US \$	
Date of Quote	5/11/2005	MM/DD/YYYY	